

ILLINOIS POWER COMPANY

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 99-

**EXHIBITS SPONSORED BY RICHARD W. EIMER, JR.
AND ROBERT D. REYNOLDS**

APRIL 16, 1999

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PREPARED DIRECT TESTIMONY OF

RICHARD W. EIMER, JR. AND ROBERT D. REYNOLDS

I. INTRODUCTION AND PURPOSE OF TESTIMONY

34 1. Q. Please state your name, business address and present position.

35 A. (Mr. Eimer) Richard W. Eimer, Jr., 500 South 27th Street, Decatur, Illinois
36 62521. I am a Vice President of Illinois Power Company ("Illinois Power",
37 "IP" or "Company"). I am also Vice President of Power Marketing, Inc.,
38 which we will refer to as "WESCO".

39 (Mr. Reynolds) Robert D. Reynolds, 500 South 27th Street, Decatur,
40 Illinois 62521. I am a Vice President of Illinois Power.

41 2. Q. Please summarize your educational background and professional
42 experience.

43 A. (Mr. Eimer) I graduated from the University of Missouri-Rolla with a
44 Bachelor's Degree in Electrical Engineering. I am a Registered
45 Professional Engineer - Illinois. Since joining Illinois Power in 1971, I
46 have held the positions of Supervisor - Instrumentation Engineering;
47 Assistant Power Plant Manager at Baldwin Power Station; Director -
48 Resource Planning; Director - Electric Supply Services; Director -
49 Marketing and Manager of Marketing; Assistant to the Vice President -
50 Fossil Generation; and my current position, Vice President.

(Mr. Reynolds) I earned a Bachelor of Science Degree in Electrical Engineering in 1980 from the University of Missouri-Columbia. Since joining Illinois Power in 1981 I have held positions of Planning Engineer, Research Engineer, Supervisor - Load Management, Supervisor - Economic Analysis, Director - Planning Analysis, Director - Pricing, and Manager of Electric Supply. I was named to my current position in May 1996.

3. Q. What are your duties and responsibilities in your current position?

A. (Mr. Eimer) As a Vice President of Illinois Power I am responsible for the fossil generation system, including power plants, fuel, planning, and other business functions such as wholesale power marketing. As Vice President of WESCO, I will have the same responsibilities upon the transfer of Illinois Power's fossil generating assets to Illinova Corporation ("Illinova") and then to WESCO, and WESCO's commencement of operations.

(Mr. Reynolds) In my present position I am responsible for the Company's Marketing and Sales activities, competitive service offerings, retail risk management and pricing. Additionally, I am the officer responsible for implementing the provision of supplier choice and delivery services for retail customers pursuant to the Electric Service Customer Choice and Rate Relief Law of 1997.

4. Q. What is the purpose of your testimony?

72 A. The purpose of our testimony is to show that Illinois Power will meet its
73 service obligations and will be able to render its tariffed services in a safe
74 and reliable manner after its fossil generation assets are transferred to
75 Illinova, those assets are in turn transferred by Illinova to WESCO, and the
76 Power Purchase Agreement (“PPA”) between WESCO and IP goes into
77 effect.

78 5. Q. Why are you testifying jointly as a panel?

79 A. Mr. Eimer will be the officer in charge of WESCO’s day-to-day operation
80 of its generating resources to meet its obligations under the PPA as well as
81 its obligations to other customers. Mr. Reynolds’ responsibilities include
82 insuring that Illinois Power has access to sufficient supplies of power and
83 energy to meet its obligations to serve its retail customers. We have been
84 involved in the development of the PPA from the perspectives of the buyer
85 (IP) and the supplier (WESCO), respectively. Accordingly, we have been
86 asked to testify as a panel in order to provide the perspectives of both the
87 buyer and the supplier as to how the PPA will enable Illinois Power to
88 continue to meet its retail tariffed service obligations in a safe and reliable
89 manner after the transfer of the fossil generation assets.

90 6. Q. In addition to your prepared testimony, IP Exhibit 2.1, are you sponsoring
91 other exhibits?

92 A. Yes, we are sponsoring IP Exhibits 2.2 through 2.5, which were prepared
93 under our supervision and direction.

94 7. Q. What are IP Exhibits 2.2 and 2.3?

95 A. IP Exhibit 2.2 is a copy of the PPA between Illinois Power and WESCO.
96 It is anticipated that WESCO will file the PPA with the Federal Energy
97 Regulatory Commission ("FERC") on or before June 15, 1999, with a
98 requested effective date no earlier than September 1. The transfer of the
99 fossil generation assets to Illinova will not occur prior to the effective date
100 of the PPA authorized by FERC.

101 IP Exhibit 2.3 is a copy of the document entitled "Illinois Power
102 Will Continue to Meet its Service Obligations Under the Public Utilities
103 Act in a Safe and Reliable Manner After the Transfer of its Fossil
104 Generation Assets to WESCO," which was included in the notice of the
105 transfer of the fossil generation assets to WESCO that Illinois Power filed
106 with the Commission on April 16, 1999.

107 **II. ILLINOIS POWER'S TARIFFED SERVICE OBLIGATIONS**

108 8. Q. What are Illinois Power's tariffed services obligations?

109 A. Under Section 16-103(a) of the Public Utilities Act ("Act"), IP must
110 continue to offer to the retail customers in its service area those tariffed
111 services which the Company was offering on December 16, 1997, until a
112 service is declared "competitive" by the Commission. These existing
113 tariffed services consist primarily of the traditional fully-bundled electric
114 service offerings which the Company provides pursuant to Service
115 Classifications on file with the Commission. In addition, under Section

116 16-103(c), IP must continue to offer bundled tariffed service to residential
117 and small commercial customers on a permanent basis, and must allow
118 residential and small commercial customers who have elected to switch to
119 an alternative power supplier to come back to IP's bundled tariffed service
120 offerings. The Act also places on Illinois Power the obligation to offer
121 several new tariffed services. Under Sections 16-104 and 16-108 of the
122 Act, IP is obligated to offer delivery services on a tariffed basis to eligible
123 customers in accordance with the transition schedule specified in Section
124 16-104, which commences October 1, 1999. Under Section 16-107,
125 Illinois Power must offer real-time pricing services on a tariffed basis to
126 non-residential customers commencing October 1, 1998 and to residential
127 customers commencing October 1, 2000. Finally, under Section 16-110 of
128 the Act, Illinois Power must offer to sell to non-residential delivery services
129 customers their power and energy requirements at "market price", until at
130 least the end of the period in which transition charges are paid. More
131 generally, Sections 8-101 and 8-104 of the Act require IP to provide
132 services and facilities that are adequate, reliable and safe.

133 9. Q. How would you summarize these service obligations in the context of the
134 transfer of Illinois Power's fossil generation assets to Illinova?

135 A. The essence of Illinois Power's tariffed service obligations is that (1) the
136 Company must be able to provide power and energy to those retail
137 customers in its service area who elect to take those services from the

Company on a tariffed basis, and (2) the Company must be able to provide delivery services (both the transmission and distribution components) in a safe and reliable manner, which implies that the Company has sufficient generation resources to support the reliable operation of its transmission and distribution systems. Further, Illinois Power needs to maintain adequate financial strength to carry out these responsibilities.

**III. ANALYSIS OF ILLINOIS POWER'S ABILITY TO MEET ITS
SERVICE OBLIGATIONS IN A SAFE AND RELIABLE MANNER**

10. Q. How have you analyzed Illinois Power's ability to provide power and energy to those retail customers in its service area who elect to take those services from the Company on a tariffed basis, after the transfer of the fossil generation assets to Illinova?
- A. We have prepared a forecast of the Company's peak demand and annual energy requirements for the years 1999 through 2004 using a base case set of assumptions as to the amount of retail load which will switch to alternative power suppliers during this period as customer choice becomes available ("Base Forecast"). IP Exhibit 2.3 includes a description of how the Base Forecast was developed. We also prepared alternative forecasts (i) assuming all customers eligible for customer choice elect to remain tariffed service customers of IP ("Total Retention Forecast"), and (ii) assuming a higher percentage of retail customers switch to alternative suppliers than is projected in the Base Forecast ("Lowest Expected Retention Forecast"). We then compared these load requirements plus

161 reserve requirements to the generation resources that will be available to
162 Illinois Power under the PPA and from other sources. For purposes of
163 this analysis, it was assumed that Clinton Power Station (“CPS”) is
164 unavailable throughout the entire period; therefore, our analysis does not
165 depend on any assumed amount of capacity and energy being supplied from
166 CPS. This analysis is described in Section V of IP Exhibit 2.3 and the
167 related tables. The analysis shows that under the Base Forecast, 39 MW of
168 reserve purchases would be required in 2000 in order to maintain a 15%
169 reserve margin above projected peak demand. No reserve purchases or
170 other new resources would be required in any of the years 2001 through
171 2004. Under the Lowest Expected Retention Forecast, Illinois Power’s
172 reserve margin would exceed 15% in every year 2000 through 2004, and
173 no reserve purchases or additional resources would be required. Under the
174 Total Retention Forecast, IP’s reserve margin would be below 15% in each
175 year 2000 through 2004, although available resources exceed projected
176 peak demand in every year (i.e., reserve margin is positive). However, the
177 Total Retention Forecast is an extreme scenario that is highly unlikely to
178 occur (i.e., no Illinois Power retail customers elect to switch to alternative
179 power suppliers). Section V of IP Exhibit 2.3 contains an analysis of the
180 additional resource options with short lead times that would be available in
181 the unlikely event that significantly fewer retail customers switch to
182 alternative power suppliers than is assumed in the Base Forecast.

183 11. Q. Why did you not discuss the Company's load and capacity situation in
184 1999 in your preceding answer?

185 A. As we indicated earlier in this testimony, the PPA will be filed with FERC
186 with a requested effective date no earlier than September 1, 1999. In fact,
187 it is the Company's intention, if necessary approvals have been obtained, to
188 effect the transfer of the fossil generating assets and to commence
189 operations under the PPA on September 30, 1999, at the end of the third
190 quarter. Therefore, the proposed transfer of the fossil generation assets
191 would not occur until after the summer 1999 peak season.

192 12. Q. What generating capacity and energy will Illinois Power be entitled to
193 receive from WESCO under the PPA?

194 A. Section III of IP Exhibit 2.3 lists key provisions of the PPA pertaining to
195 IP's entitlement to capacity and energy from WESCO. Under the PPA, IP
196 is entitled to the rated net dependable capacities of the fossil generating
197 units being transferred to Illinova (including the 176 MW of new
198 combustion turbine units ("CT Units") being installed at Tilton), which is
199 referred to in the PPA as "Tier 1 Capacity". The units being transferred,
200 and their net dependable capacities by month, are shown on Appendix 1 to
201 the PPA. The total Tier 1 Capacity in the month of July (assumed to be the
202 month of system peak) is 3,812 MW. Further, under the PPA, WESCO's
203 planned outage schedules for the fossil generating units are subject to IP's
204 review and comment, and IP has the right to require WESCO to postpone

205 or reschedule a planned outage if IP requires that the particular unit remain
206 in service during the period in which the outage is scheduled in order to
207 maintain the reliability of IP's transmission and distribution system or
208 control area. In addition, WESCO cannot sell, lease, transfer or assign a
209 generating unit to a third party unless WESCO has acquired or contracted
210 for, from a source or provider satisfactory to IP, additional capacity for the
211 remainder of the period through December 31, 2004 in amounts equal to or
212 greater than the net dependable capacity of the unit to be sold, leased,
213 assigned or transferred.

214 IP is also entitled under the PPA to "Tier 1 Energy" on a monthly
215 basis in the amounts shown on Appendix 2 to the PPA. The total annual
216 Tier 1 Energy shown on Appendix 2 is 16,235,453 MWh.

217 13. Q. How were the monthly Tier 1 Energy amounts shown on Appendix 2 to
218 the PPA developed?

219 A. The Tier 1 Energy amount for each month is the average of the actual net
220 energy delivered by the fossil generating units for the same months in the
221 36 month period ended September 30, 1998. For example, the Tier 1
222 Energy amount for the month of July is the average of the net energy
223 delivered to the grid by the fossil generating units in the months of July
224 1996, July 1997 and July 1998. The Tier 1 Energy amounts therefore
225 incorporate the historical impact of planned and unplanned outages.

226 14. Q. Can Illinois Power obtain additional capacity and energy from WESCO

227 under the PPA?

228 A. Yes. First, under the PPA, IP and WESCO can enter into agreements from
229 time to time by which WESCO will supply additional capacity or energy
230 (referred to in the PPA as "Negotiated Tier 2" capacity and energy) to IP
231 for specified time periods. Second, IP may actually take more energy from
232 WESCO during an hour or a month than the sum of the monthly Tier 1
233 Energy and any Negotiated Tier 2 Energy. This additional energy take is
234 referred to in the PPA as "Supplemental Tier 2 Energy." Supplemental
235 Tier 2 Energy is priced on an agreed basis or, if there is no agreement, on
236 the basis of WESCO's hourly purchase and sale transactions, or the
237 incremental cost of WESCO's generating units or purchases, for the
238 hour(s) in question.

239 15. Q. Does the PPA impose any limits on IP's ability to procure capacity and
240 energy from sources other than WESCO?

241 A. No, it does not. The PPA expressly recognizes that there are no limits on
242 IP's right to make purchases from other sources or providers. Illinois
243 Power can purchase capacity or energy from a third party at any time, just
244 as it can today.

245 16. Q. What are Illinois Power's rights under the PPA if WESCO's available
246 capacity is less than the sum of Tier 1 Capacity plus any Negotiated Tier 2
247 Capacity plus any sales obligations of WESCO to third parties that are
248 scheduled to be served from the fossil generation units?

249 A. In such a situation, WESCO must immediately designate sufficient
250 additional capacity resources to eliminate the capacity deficiency. If
251 WESCO fails to do so, IP may take all reasonable actions to maintain the
252 balance of electric supply and electric load on the Company's system and in
253 its control area, including obtaining replacement or additional capacity and
254 energy from third parties. The PPA requires WESCO to reimburse IP for
255 the costs of obtaining replacement capacity or energy in these
256 circumstances.

257 17. Q. Are generating resources needed to maintain the reliability of the
258 transmission and distribution system?

259 A. Yes, sufficient generation must be operating within a control area in order
260 to provide voltage support that is needed in order for electricity to flow
261 across the system and to avoid overloading certain transmission facilities.
262 Further, the amount of generation which is operating within a control area
263 can affect the transmission import capability of the control area.

264 18. Q. Does the PPA provide IP with access to generation resources necessary to
265 maintain the reliability of its transmission and distribution system?

266 A. Yes. First, as we have described, the PPA entitles IP to the net dependable
267 capacities of the fossil generating units and to Tier 1 Energy equal to the
268 recent historical production levels of the fossil generating units. Second,
269 under the PPA, the fossil units listed in Appendix 1 will be dispatched by
270 Illinois Power. This will enable the dispatchers to take into account the

271 need to keep particular units operating for transmission reliability purposes.

272 Third, the PPA expressly entitles IP to dispatch a generating unit out of
273 economic dispatch order, or to direct WESCO to delay the start of a
274 planned outage of one of the units, if IP determines that operating the unit
275 or units is necessary to provide reactive power to IP's transmission and
276 distribution system, to maintain the integrity of the transmission and
277 distribution system, to fulfill a requirement of the Company's Open Access
278 Transmission Tariff or other applicable tariff, or to fulfill a directive or
279 requirement of NERC, MAIN, any other regional reliability council of
280 which the Illinois Power system or control area is a member, or of an
281 independent transmission system operator. These provisions enable Illinois
282 Power to require the operation of any particular WESCO unit that is
283 otherwise operable if necessary in the Company's judgment to maintain the
284 reliability of the transmission and distribution system, either system-wide or
285 in a more localized area.

286 19. Q. What do you conclude from your review of the PPA?

287 A. Under the PPA, IP is entitled to capacity and energy in amounts which,
288 together with the other generation resources available to the Company (as
289 described in IP Exhibit 2.3) are sufficient to enable the Company to meet
290 its total retail peak load and energy requirements under reasonable
291 projections of the Company's tariffed service retail load over the period
292 2000 through 2004. In addition, the PPA gives Illinois Power sufficient

rights to dispatch and control the individual generating units to enable the Company to maintain the reliability of its transmission and distribution system.

20. Q. Are you presenting an analysis of whether IP will maintain sufficient financial strength after the transfer of the fossil generation assets to Illinova to be able to meet its service obligations in a safe and reliable manner?

A. Mr. Schultz's testimony covers this item. His testimony shows that Illinois Power's financial condition will be better if the fossil generation assets are transferred to Illinova than if they are not.

**IV. WESCO'S ABILITY TO PERFORM ITS OBLIGATIONS
UNDER THE POWER PURCHASE AGREEMENT**

21. Q. Will WESCO have the capabilities needed to be able to carry out its obligations to Illinois Power under the PPA?

A. Yes, it will. Mr. Dreyer's testimony contains a detailed discussion of WESCO's organization, management, capitalization and financing, and employee and other resources that will enable WESCO to operate as a viable stand-alone business and to reliably perform its obligations under the PPA. This section of our testimony will identify certain other aspects of WESCO's organization and operations that provide additional assurances in this area.

22. Q. What fuel supply resources will WESCO have at the outset of its operations?

315 A. The existing fuel inventories at each fossil power station are included in the
316 assets being transferred to Illinova and ultimately to WESCO. The values
317 of these inventories at December 31, 1998 are shown on IP Exhibit 2.4. In
318 addition, all existing fuel supply contracts in effect as of the date of the
319 asset transfer will be assigned by IP to WESCO. At present IP has in place
320 a base level of medium and long-term fossil fuel contracts which are
321 supplemented by market purchases to provide sufficient fuel for operation
322 of the fossil generating units. The transfer of the fossil fuel inventories and
323 the assignment of the existing fuel supply contracts will insure that
324 WESCO has sufficient, secure fuel supplies to support its operations at the
325 outset.

326 23. Q. Will WESCO have the capability to procure future fuel supplies?

327 A. Yes. The IP personnel who procure fossil fuel will become employees of
328 WESCO. This will insure that WESCO will have qualified in-house fossil
329 fuel procurement capabilities. For those units which burn natural gas,
330 WESCO will purchase gas from third party gas suppliers or from IP under
331 the Best Efforts Gas Service provisions of Service Classification ("SC") 76,
332 and will arrange for gas transportation to those power plants under the
333 terms of IP's transportation rate, SC 76. These arrangements are the same
334 as those used by Illinois Power today to purchase and transport gas for
335 generation fuel purposes.

336 24. Q. Will WESCO have sufficient sulfur dioxide emission allowances to

337 operate the fossil generating units?

338 A. Yes. Illinois Power's entire inventory of sulfur dioxide emission
339 allowances ("EA") will be included in the assets transferred to Illinova and
340 ultimately to WESCO. Under the Clean Air Act Amendments of 1990, EA
341 are issued each year by the United States Environmental Protection Agency
342 ("USEPA") on generating unit-specific bases, so after the formation of
343 WESCO future issuances of EA will be allocated to WESCO, not to IP.
344 WESCO will also have the in-house capability to purchase additional EA
345 on the open market or in the periodic USEPA auctions. We should also
346 note that Baldwin and Hennepin Power Stations will be converted to the
347 capability to burn low sulfur coal by the first quarter of 2000.

348 25. Q. Will WESCO have the capabilities to procure operating materials and
349 supplies, to operate and maintain the fossil generating units and to procure
350 and manage the other products and services needed for other purposes
351 such as maintenance services during outages and engineering and
352 construction services needed to perform capital improvement or
353 rehabilitation projects on the units?

354 A. Yes. The entire inventory of operating materials and supplies at each fossil
355 generating station will be included in the assets transferred to Illinova and
356 ultimately to WESCO. The values of these inventories at December 31,
357 1998 are shown on IP Exhibit 2.5. At the outset of its operations, WESCO
358 will procure additional operating materials and supplies by using the

359 services of IP procurement personnel pursuant to the interim services and
360 facilities agreement between IP and WESCO described by Mr. Dreyer, or
361 pursuant to the new Services and Facilities Agreement between and among
362 Illinova and its subsidiaries when that agreement is approved by the
363 Commission in Docket 99-0114. In the future, WESCO may develop
364 in-house capabilities to perform some or all of these procurement
365 functions. Further, the Illinois Power employees at each power plant
366 currently involved in operation and maintenance activities, as well as the
367 related support and supervisory personnel for these activities at IP's Fossil
368 Business Center in Decatur and the Power Plant Services personnel in
369 Swansea and Bloomington, will become WESCO employees. These
370 personnel are also currently responsible as IP employees, and will be
371 responsible as WESCO employees, for procuring outside services such as
372 maintenance, engineering and construction services, for planning and
373 managing outages, and for identifying, evaluating the need for and
374 implementing capital improvement and rehabilitation projects at the fossil
375 units.

376 26. Q. What insurance will WESCO maintain on the fossil generating units?

377 A. The PPA requires WESCO to maintain, at a minimum, property insurance,
378 boiler and machinery insurance and liability insurance in the amounts shown
379 on Appendix 4 to the PPA.

380 27. Q. Does this conclude your prepared direct testimony?

381 A. Yes, it does.